

STATE OF IOWA  
DEPARTMENT OF COMMERCE  
UTILITIES BOARD

IN RE:  GLOBAL CROSSING LTD. AND CITIZENS COMMUNICATIONS COMPANY	DOCKET NO. SPU-00-15
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**ORDER PROVIDING NOTICE OF EX PARTE LETTERS, SCHEDULING  
RESPONSES, AND EXTENDING DEADLINE**

(Issued November 7, 2000)

On August 16, 2000, Global Crossing Ltd. (Global) and Citizens Communications Company (Citizens) filed a proposal for reorganization pursuant to the provisions of Iowa Code § 476.77 (1999). The reorganization involves the sale of the capital stock of Frontier Subsidiary Telco, Inc., the parent company of Frontier Communications of Iowa, Inc. (Frontier-Iowa), and Frontier Communications of America, Inc. (FCA), from Global to Citizens. Citizens will purchase the stock of Frontier Subsidiary Telco, Inc., which will become a wholly-owned subsidiary of Citizens, and Frontier-Iowa and FCA will remain wholly-owned subsidiaries of Frontier Subsidiary Telco, Inc.

On September 14, 2000, the Utilities Board (Board) issued an order establishing a procedural schedule for this case. Interested persons were given until September 26, 2000, to file an application to intervene. No applications to intervene were filed. A hearing was scheduled for October 26, 2000.

On September 22, 2000, Global, Citizens, and the Consumer Advocate Division of the Department of Justice (Consumer Advocate) filed a "Joint Motion For Approval Of Settlement Agreement." The agreement purports to resolve all of the issues in the proceeding. The hearing was held on October 26, 2000, for the presentation of evidence and Board questions.

Prior to the hearing, a letter dated October 13, 2000, was received from the Communications Workers of America (CWA) that raised an issue outside the record in this case. This first letter was treated as an attempted ex parte contact and was not provided to the Board. At the hearing Chairperson Thoms, without knowledge of the letter, asked a question of Mr. Peterson, a Citizens witness, which addressed the issue of the treatment of pensions that was the subject of the first CWA letter. Mr. Peterson provided a response. On October 26, 2000, CWA sent a second letter to Chairperson Thoms stating that the response provided by Mr. Peterson to the Chairperson's question was not true.

The second letter is an ex parte communication to the Board as described in Iowa Code § 17A.17. By this order the Board is giving notice of the ex parte contacts and offering an opportunity for the parties to respond. The letters are attached to this order and incorporated herein by reference and will thus be placed into the nonevidentiary part of the record of this proceeding.

The second letter challenges the truthfulness of Mr. Peterson's testimony and therefore raises an issue about the evidentiary support for the settlement and the sale. The questions asked by the Chairperson and Mr. Peterson's responses are found on page 86 of the transcript. The questions and responses are set out below.

CHAIRPERSON THOMS: Mr. Peterson, I'm sorry. I had, I guess, a second page to that question when we were talking about personnel, and I didn't get to that, when you assured me that the line staff would not be impacted as well as the management, other than retirements, and so forth.

Is there also a seamless transition on pensions and benefits packages? Are those different between the companies?

MR. PETERSON: Benefits are covered by the transaction document for a period of time. We have a -- with our line personnel, we have a contractual agreement that was just entered into, renewed this year, a three-year agreement, so that exists, and it lays out wage and salary rates.

CHAIRPERSON THOMS: And that gets adopted with this?

MR. PETERSON: Yes, it does.

CHAIRPERSON THOMS: And so that new terms would have to be negotiated at the end of this contract, is that what you're saying?

MR. PETERSON: That is correct.

The Board believes there are two issues that need to be addressed by the parties with regard to matters raised by the second letter. The first issue is whether the matter raised by the second letter is material to the disposition of the case before the Board, regardless of whether Mr. Peterson gave a complete and truthful response. The second issue is whether Mr. Peterson's response was complete and truthful. The Board will establish a date by which the parties shall file responses to the issues raised by the second letter including any additional proven testimony.

The Board will extend the deadline for issuing a decision concerning the proposed sale of the Frontier companies to January 16, 2001, as provided for in Iowa

Code § 476.77 (1999), to give it an opportunity to review the responses. The Board finds that the allegations in the second letter are good cause to extend the deadline.

**IT IS THEREFORE ORDERED:**

1. The deadline for issuing an order concerning the sale of Frontier Communications of Iowa, Inc., and Frontier Communications of America, Inc, from Global Crossing Ltd. to Citizens Communications Company is extended from November 14, 2000, to January 16, 2001.
2. The parties shall file responses addressing the issues described in this order related to the October 26, 2000, letter from the Communications Workers of America on or before November 17, 2000.
3. The letters from Communications Workers of America dated October 13 and 26, 2000, are attached to this order and incorporated herein by reference.

**UTILITIES BOARD**

/s/ Allan T. Thoms

/s/ Susan J. Frye

ATTEST:

/s/ Raymond K. Vawter, Jr.  
Executive Secretary

/s/ Diane Munns

Dated at Des Moines, Iowa, this 7<sup>th</sup> day of November, 2000.



October 13, 2000

Executive Secretary  
Iowa Utilities Board  
350 Maple Street  
Des Moines, IA 503 19-0069

Dear Sir or Madam:

The Communications Workers of America (CWA) wishes to file comments on the Proposal for Reorganization filed on August 16, 2000 by Global Crossing Ltd. and Citizens Communications Company, Docket No. SPU-00-15.

CWA recognizes that the deadline for the filing of comments has past. While the CWA does not intend to intervene to oppose the Proposal, we appreciate the opportunity to inform the Board of an issue of great concern to Iowa-based employees of the Frontier Communications Company.

Respectfully submitted,

A handwritten signature in dark ink that reads "Ken Rains". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Kenneth Rains  
CWA Representative  
Des Moines, Iowa

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## IOWA STATE UTILITIES BOARD

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 Joint Petition of Global Crossing and Citizens  
 Communications Company for approval of the Sale of  
 Capital stock of Frontier Communications of Iowa, Inc.  
 and Frontier Communications of America, Inc. to  
 Citizens Communications Company.  
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SPU-00-15

COMMENTS OF THE  
 COMMUNICATIONS WORKERS OF America

By order of Docket No. SPU-99-24 on September 24, 1999, the Iowa Public Utility Board approved the transfer of control of the Iowa operating subsidiaries of Frontier Corporation to Global Crossing of North America, Inc. Now, less than one year later, in a Proposal for Reorganization filed on August 16, 2000, Global proposes to sell these same units to the Citizens Communications Company.

The Communications Workers of America is concerned that, absent the condition outlined in this filing, the proposed sale of Frontier will adversely affect Frontier's employees in Iowa. As will be discussed further below, Global Crossing plans to maintain control of the trust fund that supports the defined benefit pension plan in which Frontier's non-management employees participate. These benefits were frozen effective at the end of 1996. This trust fund is the accumulated result of years of employer contributions, flowing from revenues received for the provision of telephone service to Iowa ratepayers and those of the other states served by Frontier. Iowa residents paid rates that were based on the cost of providing that service, including the cost of employee compensation, including pension benefits.

Absent the condition described herein, the sale will have a negative impact on workers' pension benefits. Frontier employees will no longer be employed by the entity that controls their pension plan. They can no longer assert their right to negotiate improvements in their benefits based on the health investment returns enjoyed by the plan trust. Instead, any such improvements will have to be negotiated with Citizens, and then add, once again, to the cost of providing telephone service.

For these reasons and despite the fact that Citizens Communications has a good record in service quality and labor relations, the CWA will oppose this petition as

presently conceived, unless the Board requires that all assets of the employees' pension plan are transferred from Global to Citizens Communications

### **The PUB Should Insure That The Pensions of Frontier Workers Will Be Protected**

The sales agreement makes clear that Global will transfer its Frontier employees and their work to Citizens. While in some locations these employees are not represented by a labor union, the majority of workers at Frontier in Iowa are members of the Communications Workers of America (CWA). The sales agreement requires Citizens to continue to recognize the collective bargaining agreements already in place and to maintain wages and benefits. Among the benefits included in the collective bargaining agreements between Frontier and its employees is a defined benefit pension plan. The benefits payable to the employees under this plan were frozen as of the end of **1996**. This means that no further contributions were made to the plan after that date and that benefit accruals will not increase with additional service under the plan.

Under the Employee Retirement Income Security Act (ERISA), the employees' accrued benefits (i.e. all benefits accrued through 1996) are protected even though the plan is frozen; employees remain entitled to receive benefits from the plan in the future once they have met its eligibility requirements. The collective bargaining agreement between Frontier and the CWA recognized that, as the frozen plan's assets increased beyond the minimum funding requirement of ERISA, the plan's members would be entitled to participate in the plan's growth by expressly allowing the parties to negotiate improvements in the benefit formula, as long as no new contributions would be required.

When Global Crossing purchased Frontier Communications in 1999, the purchase included the frozen pension plan, its assets and liabilities. Global, during the period it has owned Frontier, never contributed any money to this plan. However, Global Crossing has taken an unusual position with respect to the plan in its proposed sale of Frontier to Citizens. Under the stock purchase agreement between Global Crossing and Citizens, the frozen plan's assets will remain with Global Crossing upon the sale of the ILECs to Citizens.<sup>1</sup> The CWA is convinced that this arrangement, which would separate the

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<sup>1</sup> Stock Purchase Agreement by and among Global Crossing, Ltd., Global Crossing North America, Inc., and Citizens Communications Company dated as of July 11, 2000. Section 8.2, p. 45.

**collectively** bargained pension **fund** from the workers who are its beneficiaries, is not in the best interest of these workers

Until now, the Frontier employees serving customers in Iowa felt that their **benefits** were secured in a trust controlled by their employer **who** had a continuing interest in their welfare. They **were** reassured by the fact that their pensions could be the subject of the collective bargaining process. They could be **sure that** their union would be able to represent their interests in pension related matters. However, the terms of the stock purchase agreement effectively terminate such security

By retaining control of the pension plan, Global will be able to unilaterally amend or terminate the plan, subject to maintenance **of the benefits** now provided. The Pension Trust Fund in question had assets of **\$604** million and liabilities for benefits of \$472 million as of January 1, 1999. Thus, assets are 28% greater than accumulated benefits. And this differential is growing: assets grew by 22.5% **while** liabilities grew by just 7.5% since the end of 1996.<sup>2</sup>

By retaining control of the pension plan, Global will be able to siphon off the substantial **excess** assets in the fund. It could do so by terminating the plan and reverting the excess assets to its treasury. Alternatively, Global could choose to merge this fund with another new or existing pension plan or simply allow other employees to become participants. In the latter two cases, Global would effectively utilize the excess assets to subsidize the benefits of employees who never worked for Frontier or any Iowa-based operation. This would not be in the best interests of Iowa's ratepayers or the **communities**.

It is the **CWA's** position **that** Global should not be allowed to retain control of the pension plan and divert money from the **fund** for its own benefit. After all, Global has not contributed one dime to this pension **plan**.<sup>3</sup> The fund **was** built **with** contributions flowing from revenue generated **from ratepayers** who paid for Frontier's telephone services. That revenue level was determined, in part, by payroll costs, including the cost of maintaining a pension plan for Frontier employees.

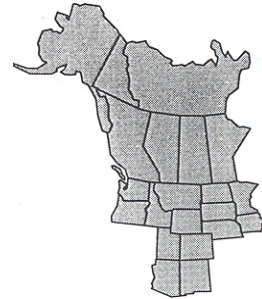
<sup>2</sup> Buck Consultants, Pension Plan Actuarial Reports for 1997, 1998 and 1999.

<sup>3</sup> Ibid.



9

**The CWA strongly opposes Global's decision to retain control of the pension plan and recommends that the PUB attach the following condition to its approval of the sale to Citizens: Global Crossing Ltd. will transfer all the assets and liabilities of the Frontier employee pension plans to Citizens Communications Company.**



October 26, 2000

Mr. Allan Thorns, Chairman  
Iowa Utilities Board  
Iowa Department of Commerce  
350 Maple Street  
Des Moines, IA 503 19-0069

Dear Chairman:

During the hearing for approval of the sale of Frontier Communications of Iowa, Inc. to Citizens Communications Company on October 26, 2000 you asked several questions of Mr. Jim Peterson. One specific question asked was the benefit assets being transferred to Citizens. Mr. Jim Peterson replied "yes". His answer is completely false.

The pension fund is not being transferred and will be in control of Global Crossing, which has never contributed one dime to this benefit. This pension fund belonged to Frontier Communications prior to Global Crossing purchasing Frontier. Not only did it belong to Frontier but it was frozen in place for all employees in 1996.

You denied me the opportunity to participate in the hearing because I was not timely in requesting to do so. I respect the ruling. I also observed Mr. Jim Peterson taking an oath to tell the truth and he did not. Due to his untrue statement I request to submit my statement to the Iowa Utilities Board.

Await your reply.

Sincerely,

A handwritten signature in black ink, which appears to read 'Ken Rams', is located below the 'Sincerely,' text.

Ken Rams  
CWA Representative

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